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SUBJECT: POVERTY INSURANCE: ROME-BASED AGENCIES AND PERMREPS
DISCUSS EUROPEAN THINK TANK'S PROPOSAL

1. Summary: On June 29, 2005, the Italian Committee of the Thomas More Institute hosted a conference at the United Nations (UN) Food and Agriculture Organization (FAO) on poverty insurance, entitled "Reinsurance: A New Key to Development Aid." French academic Michel Vate was the featured presenter, while one expert from each of the Rome-based food agencies FAO, World Food Programme (WFP), and the International Fund for Agricultural Development (IFAD) participated in a roundtable discussion on current insurance schemes to reduce poverty. The central premise was that economic insecurity caused by natural or other shocks is a major contributor to underdevelopment, and that insurance and re-insurance mechanisms supported by development aid and private investors could help the poor manage such risks. U.S. Ambassador Tony Hall, along with his counterparts from France and the United Kingdom, provided closing remarks in which they welcomed innovative ideas for tackling poverty and underdevelopment, but questioned the specifics of Vate's proposal. End Summary

2. Background: The Thomas More Institute is an independent European think tank based in Brussels and Paris, which aims to provide a forum for innovative ideas and solutions to the world's current and future problems (for more information, refer to www.institut-thomas-more.org). On June 29, 2005, the Italian Committee of the Thomas More Institute hosted a conference at FAO on poverty insurance, entitled "Reinsurance: A New Key to Development Aid."

Conference Participants

3. Despite the fact that June 29 is local holiday in Rome (Saints Peter and Paul day), the conference was fairly well attended by foreign representations (mainly African) as well as international organizations and even a clergyman. Romualdo Bettini, Italian Ambassador to the UN agencies in Rome gave opening remarks, while Gustavo Selva, President of the Foreign Affairs Committee of the Italian Chamber of Deputies, provided the introduction. University of Lyon Professor Michel Vate's featured presentation on "Reinsuring the Planet: Towards a Pro-poor Financial Globalization" was followed by a roundtable discussion by experts from each of the Rome-based food agencies: FAO, IFAD and WFP. U.S. Ambassador Tony Hall, along with his counterparts from the United Kingdom and France, ended the conference with closing remarks.

What is Poverty Insurance?

4. As major disasters due to climatic or geologic changes tend to occur at measurable frequencies, international finance and humanitarian organizations have teamed up recently to come up with alternatives in providing aid to affected countries as a way to mitigate risks. The effort has lead to a mechanism called poverty insurance, also interchangeably known as hunger or weather insurance. Poverty insurance aims to alleviate the economic stress caused by disaster by insuring against the event. The concept is similar to the hurricane/weather/crop insurance schemes found in developed nations. Insurance helped support development in countries in the north, but the poverty faced by many countries in the south is an impediment for insurance, either because the poor cannot afford the premiums or there is no financial system in place to support an insurance scheme. Academic experts, economists and humanitarian practitioners are working together to come up with poverty reduction insurance mechanisms that are either fully or partially financed by capable entities (i.e., donors, host nations, or developing nation constituents themselves).

Michel Vate and "Planet Re" on Reinsuring the Planet

15. French academic Michel Vate explained that "Planet Re" is a global pyramid with millions of the world's poor threatened by poverty at its base. At the top are the major international organizations like the World Bank, the International Monetary Fund, the European Union and UN agencies like FAO. Small premiums paid by the poorest at the bottom of the pyramid and managed by the international associations and major insurance companies at the top of the pyramid could lead to the creation of an insurance system in the interest of the world's neediest. It

would be a "hand-up" approach to aid rather than a "hand-out." According to Vate, more risk sharing and risk transfer will alleviate the need for public aid. Thus, his "Planet Re" concept is risk insurance in the interest of development, which restores capacity lost during a disaster. (For more information, please refer to <http://www.institut-thomas-more.org/pdf/lenNoteITM1Vatev2Eng.pdf>.) Vate distanced himself from controversial proposals for a global tax on capital transactions to finance a global poverty insurance scheme, but was not precise on where the funding would come from, or how such scheme would be managed.

Roundtable Discussion by Rome Experts

16. Economists and rural finance experts from FAO, IFAD and WFP offered their views on current schemes from each of their agencies as follows:

-- The director of FAO's commodities and trade division, an economist by training, covered vulnerability issues related to commodity shocks in least developed countries. He noted that there is a form of self-insurance in developing countries, for example, investing in livestock or gold, but that there is also a high demand for harvest insurance. For instance, coffee farmers in Tanzania are willing to pay up to 800 Tanzania shillings for a crop premium. FAO is working on an idea for a "Global Commodity Insurance Facility" to develop a fund for low-income commodity deficit countries to purchase insurance contracts. This is broadly based on the "Global Index Insurance Facility," which has recently received \$100 million in pledges by the European Union and development banks. FAO is helping to provide technical backstopping on the Global Index Insurance Facility.

-- A senior rural finance adviser from IFAD discussed micro-insurance and how it reinforces micro-finance. IFAD is working with the world's top micro-finance institutions to extend micro-finance opportunities, such as providing savings and credit as well as insurance services, to the rural poor. According to IFAD, when the rural poor people have access to credit, savings, insurance and basic financial services they can better manage their assets and generate income. IFAD is currently conducting micro-insurance projects in Mexico and Morocco.

-- A WFP food security and early warning adviser gave a brief overview on the WFP weather insurance project to be launched in Ethiopia. The speaker, who was born in the countryside where the WFP project will focus, noted the need for such a venture where there are limited options. He said that many Ethiopians have yet to recover from the devastating impact of the 1984-85 drought, which if it occurred today would cost the world \$1.6 billion in aid. The WFP program aims to protect whatever development has been accomplished through conventional donor funding. Recognizing the importance of this scheme, the Government of Ethiopia is participating by providing rainfall data on which the insurance scheme will be based.

17. Questions from the audience related to external financing (Vate clarified that his scheme would not be financed through international taxation but rather through private investment); and bridging the gap between micro-insurance and macro-insurance, (which would depend on the transmission mechanism, whether it be through a bank, a government entity, or international organization, such as WFP). The Sudanese Ambassador inquired as to how poverty insurance could be applied to Sudan. Vate responded that, without political will, it is difficult, and stated that big actors, including the Government of Sudan and international donors, can begin on a smaller scale by funding smaller, more specialized insurance schemes.

Closing Remarks Session

18. U.S. Ambassador Tony Hall, UK Ambassador Matthew Wyatt, and French Ambassador Charles Millon provided closing remarks. Ambassador Hall thanked the conference planners and participants for providing a forum in which innovative ideas and tools to combat poverty and hunger could be discussed, but noted that many questions still remain on this issue, for example, how the poor can be kept in the loop on financing this scheme. He highlighted the U.S. position that good governance is key to enabling a favorable climate for development, and noted that all governments

have the singular responsibility to ensure the well being of their people. Both Ambassadors Wyatt and Millon echoed the good governance remarks. Wyatt called for more information on how poverty insurance will affect social protection schemes, while Millon stated that insurance can help push development forward. All thanked the experts for providing as simple an overview as possible on a technically complicated concept.

Hall

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